



***Tennessee Tax Revenue Estimates
for
FY2014-2015 and FY2015-2016***

***Prepared by:
Fiscal Review Committee Staff
December 11, 2014***





FRC Economic Outlook

- Sustainable growth in real personal consumption expenditures ranging between 2.0% and 3.0%.
- Sustainable growth in real retail and food service sales ranging between 2.5% to 3.5%.
- Light vehicle sales continue to grow (between 2.0% and 4.0%)
- Housing continues recovery (accelerating rate)
 - National Association of Home Builders (Oct. 2014) – “single family production expected to increase 26% in 2015”
 - Fannie Mae (November 2014) – forecast 23.3% growth in single family starts in 2015
 - Realtor.com – (December 2014) – overall 16% growth in home starts; 21% growth in single family home starts





FRC Economic Outlook

- Unemployment rates improving:
 - Projected Unemployment Rate (Dec 2014): 5.7%
 - Projected Unemployment Rate (Dec 2015): 5.3%
 - Projected Unemployment Rate (Dec 2016): 5.0%
- Nov. 2014 – U.S. nonfarm payrolls grew 321,000
 - Strongest month since Jan. 2012
 - Sept. 2014 growth revised from 256,000 to 271,000
 - Oct. 2014 growth revised from 214,000 to 243,000
- TN nonfarm employment improving:
 - Oct 2014 – Added 7,900 jobs
 - Growing 2.16% per year





FRC Economic Outlook

- Lower crude oil prices:
 - As of 12/05/2014: \$70 per barrel
 - Last 4 years: average price of gasoline ranged between \$3.25 and \$4.00 per gallon
 - As of 12/05/2014: national average was \$2.82; in TN \$2.52
 - National consumption: 135 billion gallons per year
 - Effect: injection into the economy: \approx \$135 billion.
- What about inflation?
- Fed ended bond buying program in October 2014.
- Fed will begin gradually increasing the federal funds rate...probably spring 2015...





FRC Economic Outlook

- ...but will keep rates relatively low for some time.
 - Projected rate (Dec 2014): 0.12%
 - Projected rate (Dec 2015): 1.02%
 - Projected rate (Dec 2016): 2.40%
- Inflation: range between 2.5% and 3.5%
- Result: a moderate economic expansion
 - Actual GDP growth (2013) = 2.7%
 - Projected GDP growth (2014) \approx 2.4%
 - Projected GDP growth (2015) \approx 2.8%
 - Projected GDP growth (2016) \approx 2.9%

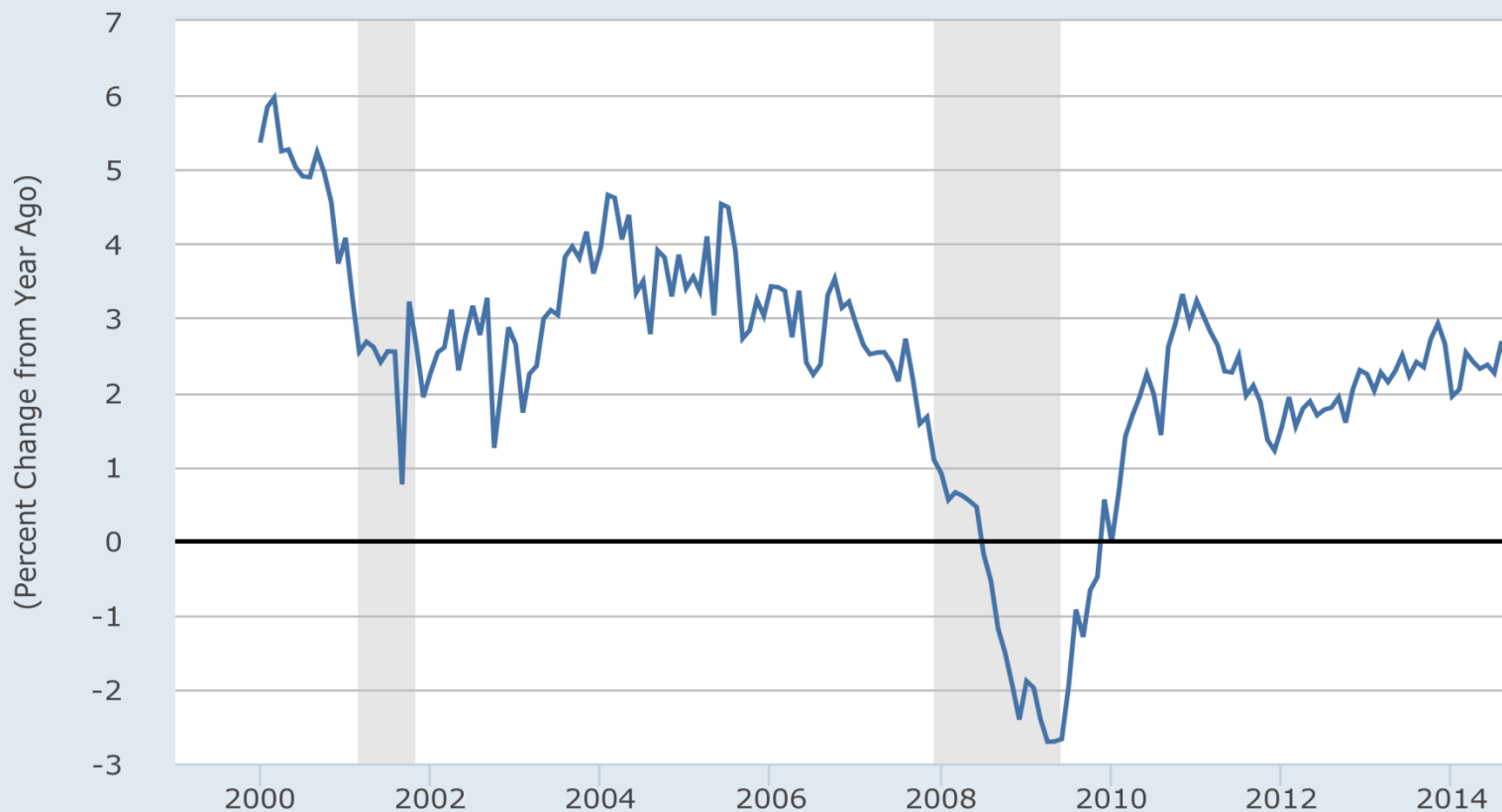




Real Personal Consumption

FRED 

— Real Personal Consumption Expenditures



Source: US. Bureau of Economic Analysis

Shaded areas indicate US recessions - 2014 research.stlouisfed.org

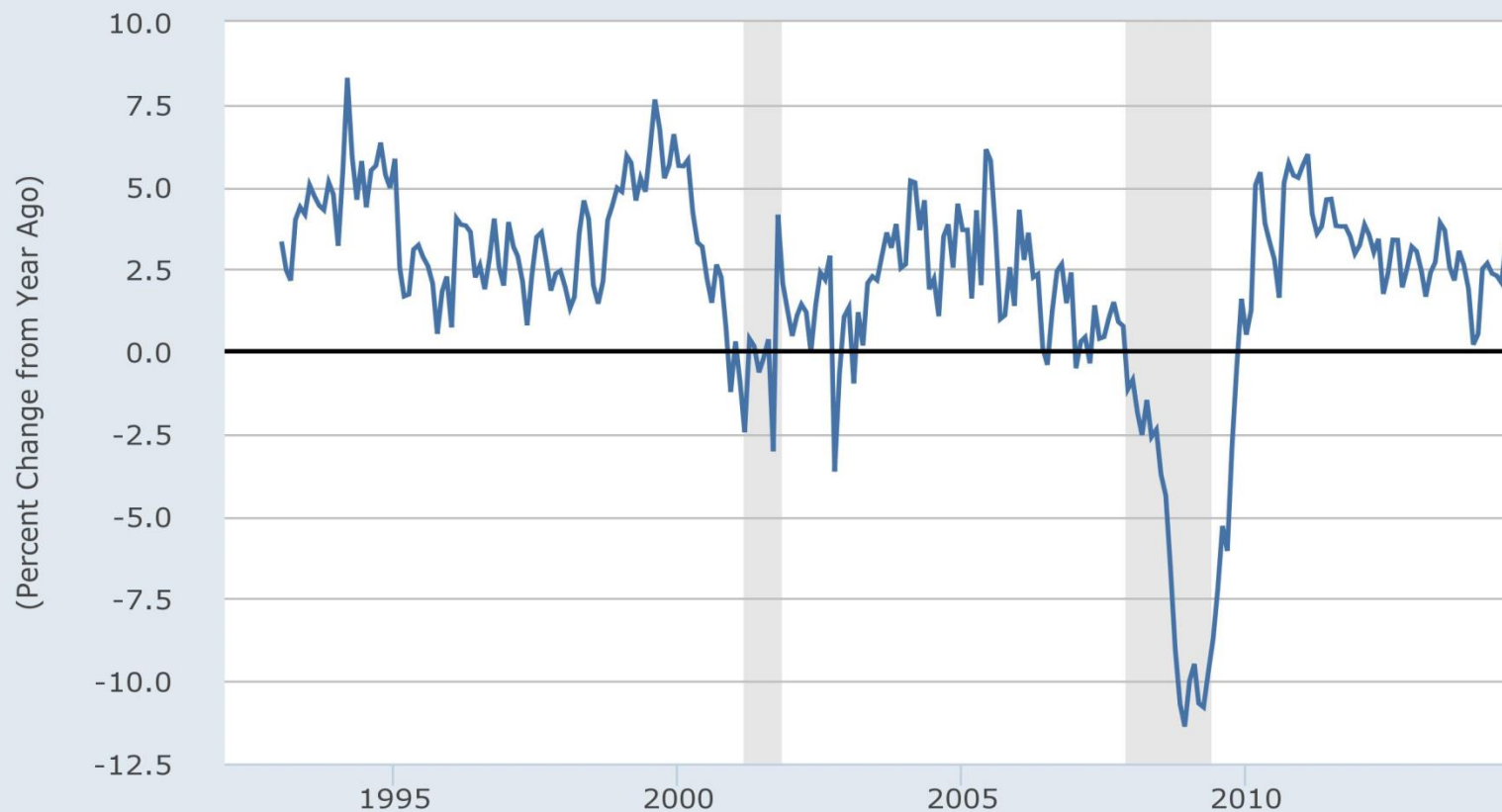




Retail Sales Growth

FRED

— Real Retail and Food Services Sales



Source: Federal Reserve Bank of St. Louis

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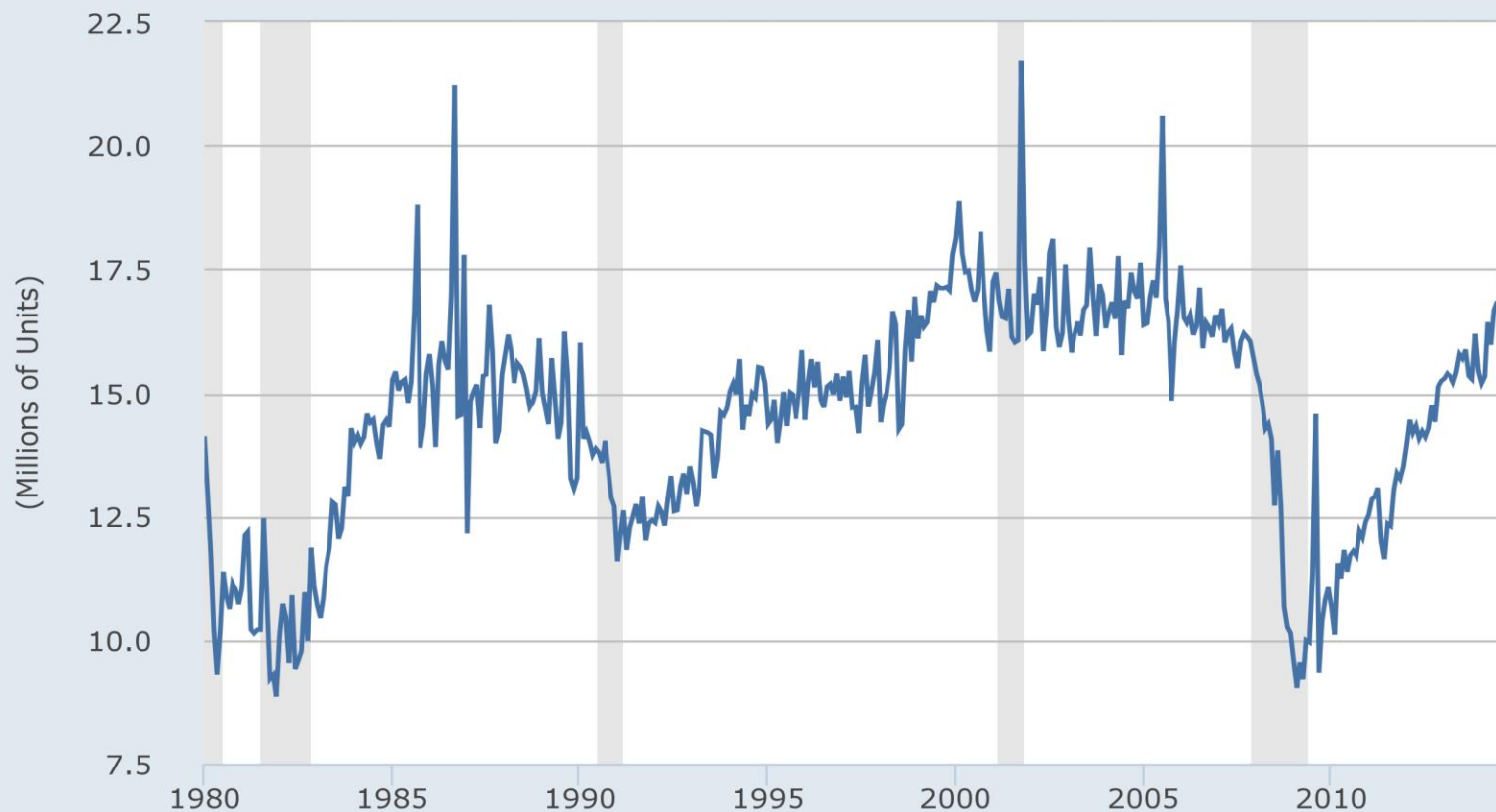




Vehicle Sales

FRED 

— Light Weight Vehicle Sales: Autos & Light Trucks



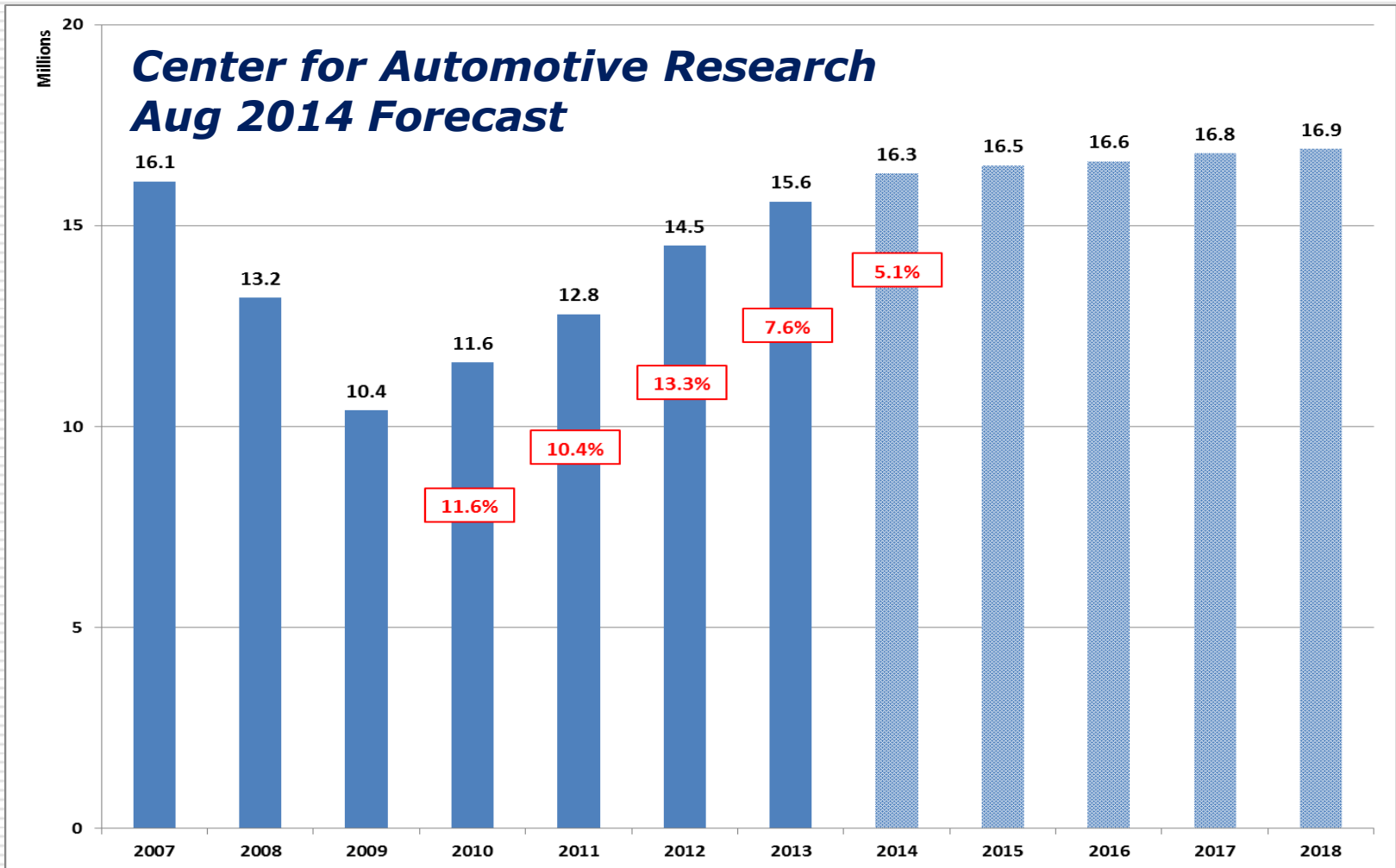
Source: US. Bureau of Economic Analysis

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Light Vehicle Sales CAR Forecast



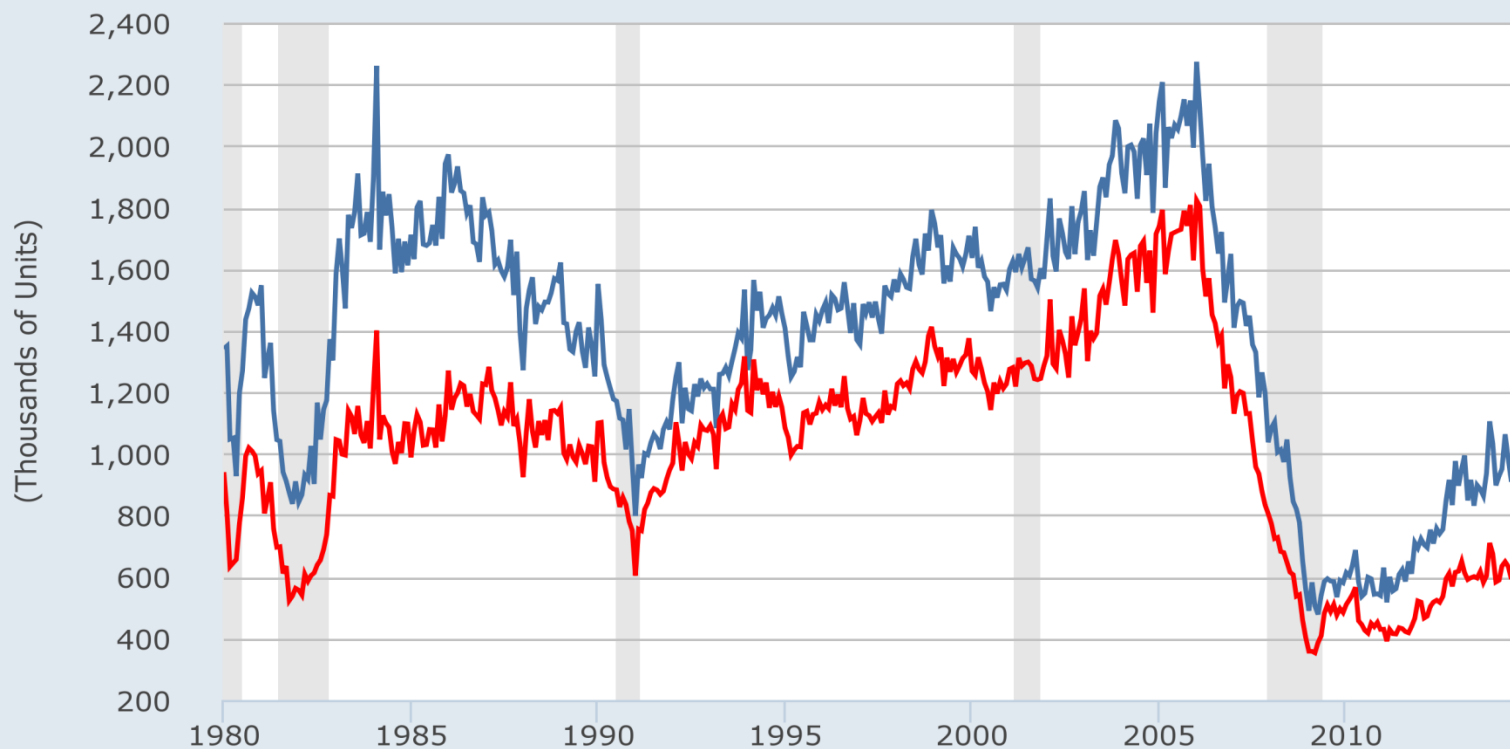


Housing Starts

FRED

— Housing Starts: Total: New Privately Owned Housing Units Started

— Privately Owned Housing Starts: 1-Unit Structures



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TN Housing Starts

FRED

— Privately Owned Housing Starts Authorized by Building Permits: 1-Unit Structures for Tennessee



Source: Federal Reserve Bank of St. Louis

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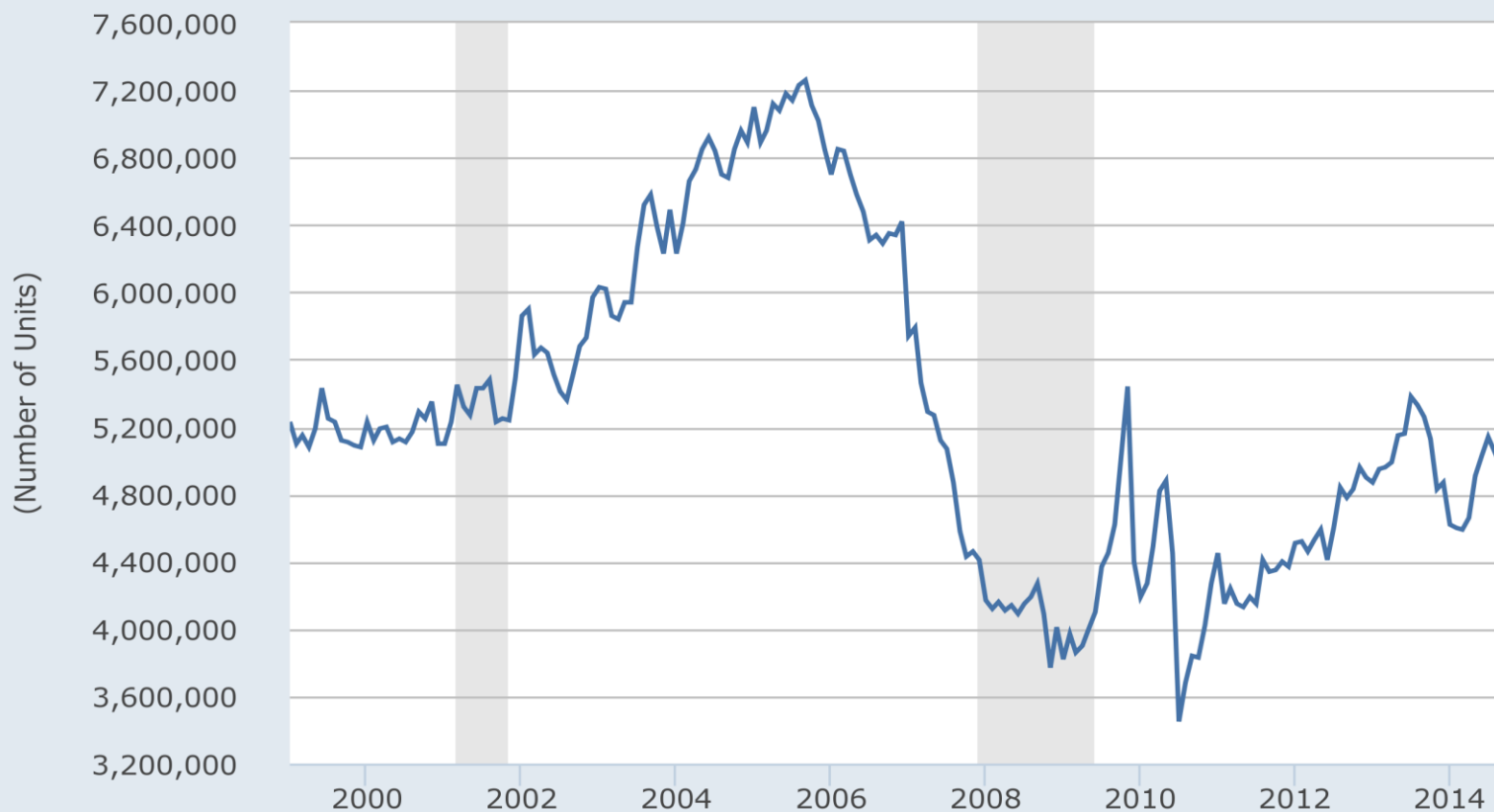




Existing Home Sales

FRED

— Existing Home Sales©



Source: National Association of Realtors

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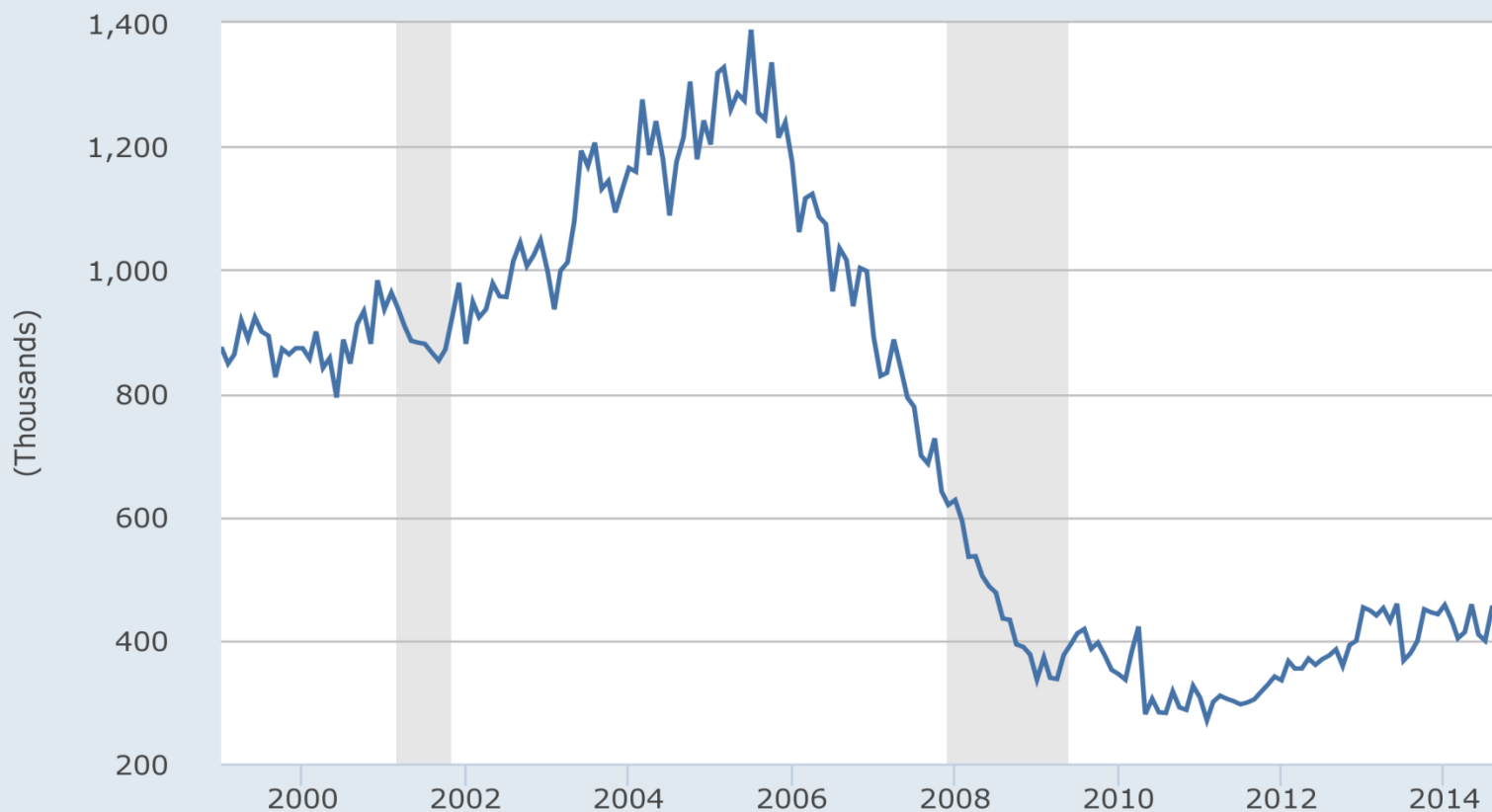




New Home Sales

FRED

— New One Family Houses Sold: United States



Source: US. Bureau of the Census

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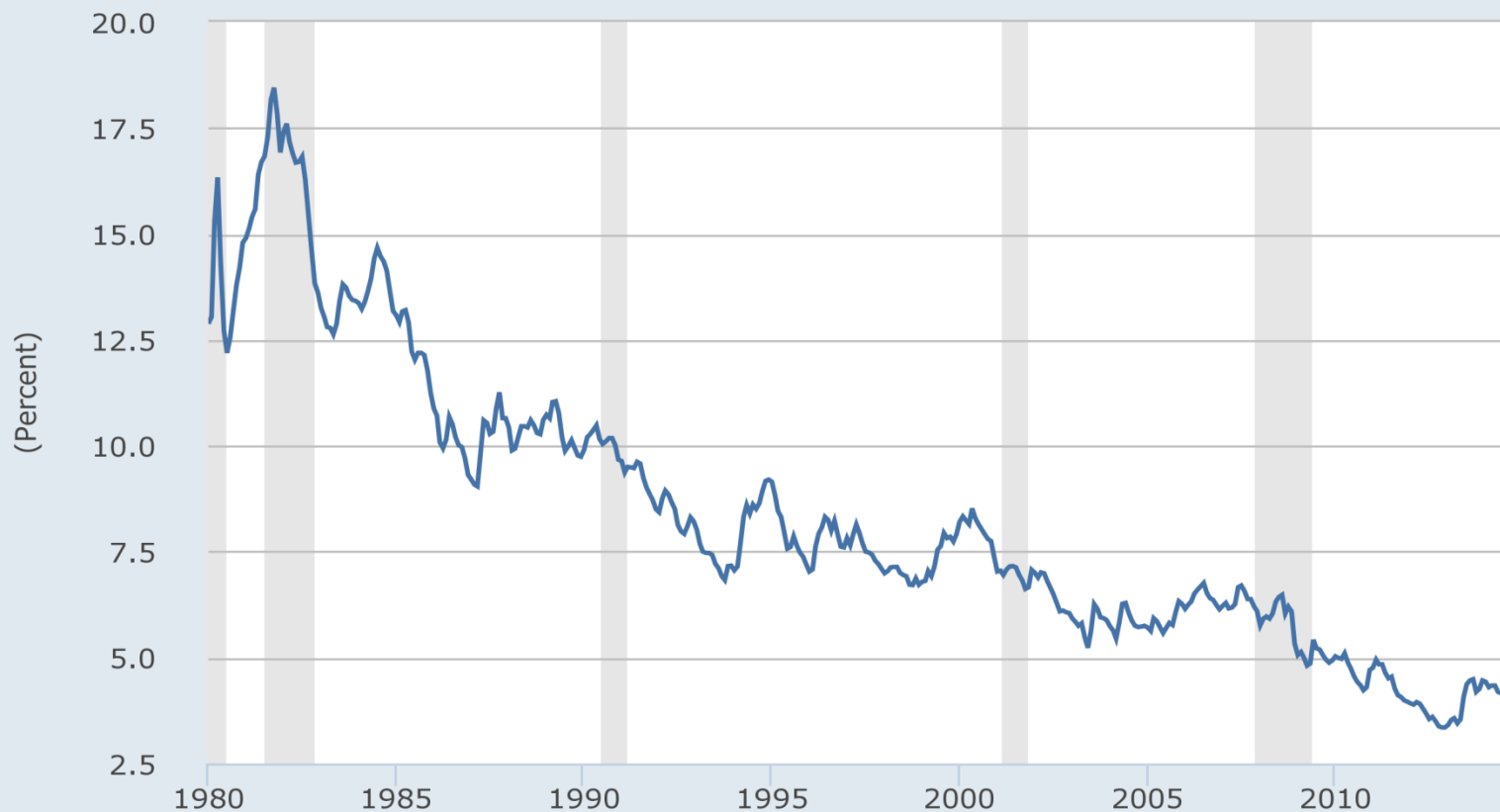




Mortgage Rate

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— 30-Year Conventional Mortgage Rate©



Source: Board of Governors of the Federal Reserve System (US)

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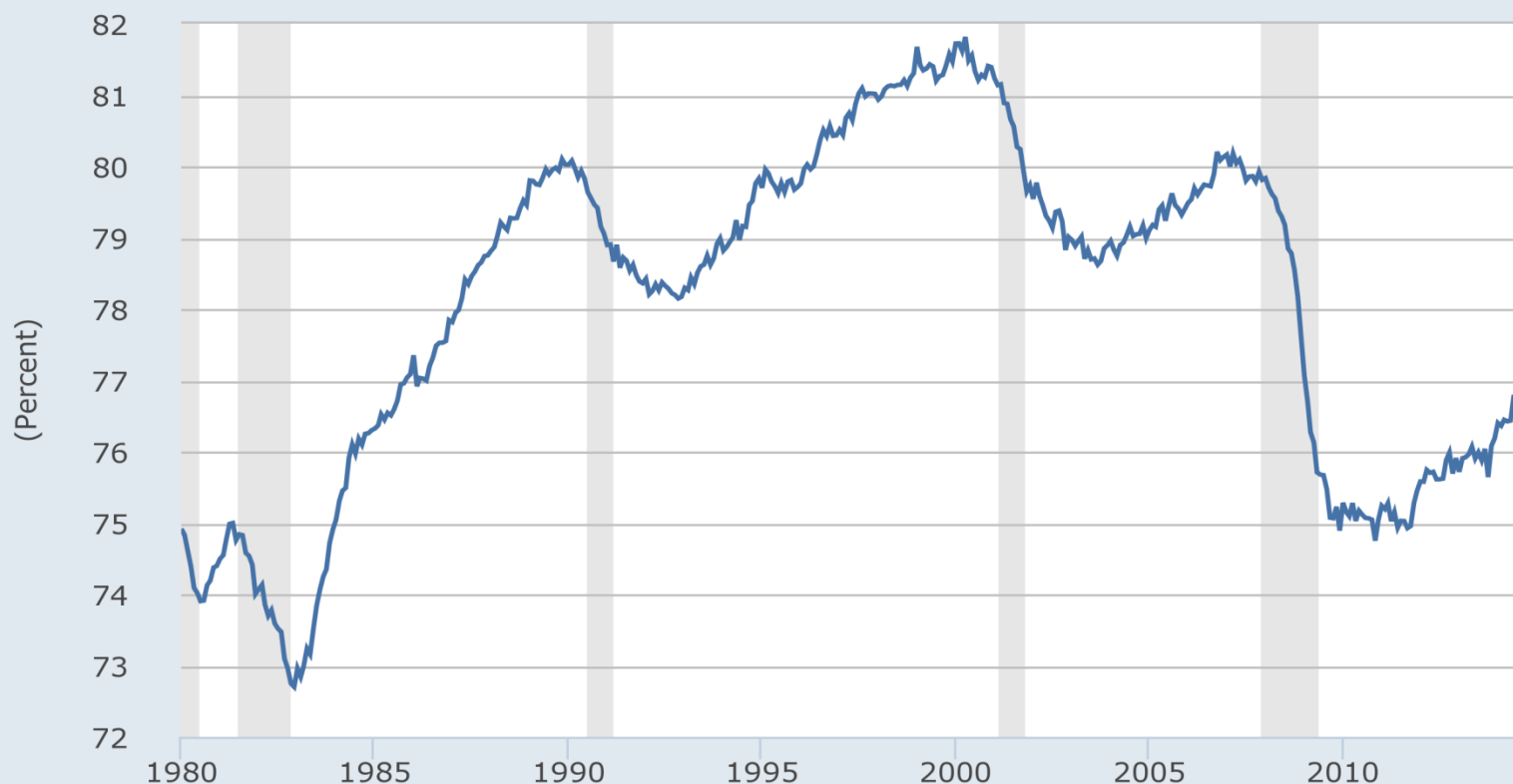




Employment Rate: Age 25-54

FRED

— Employment Rate: Aged 25-54: All Persons for the United States©



Source: Organisation for Economic Co-operation and Development

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Duration of Unemployment

FRED 

— Average (Mean) Duration of Unemployment



Source: US. Bureau of Labor Statistics

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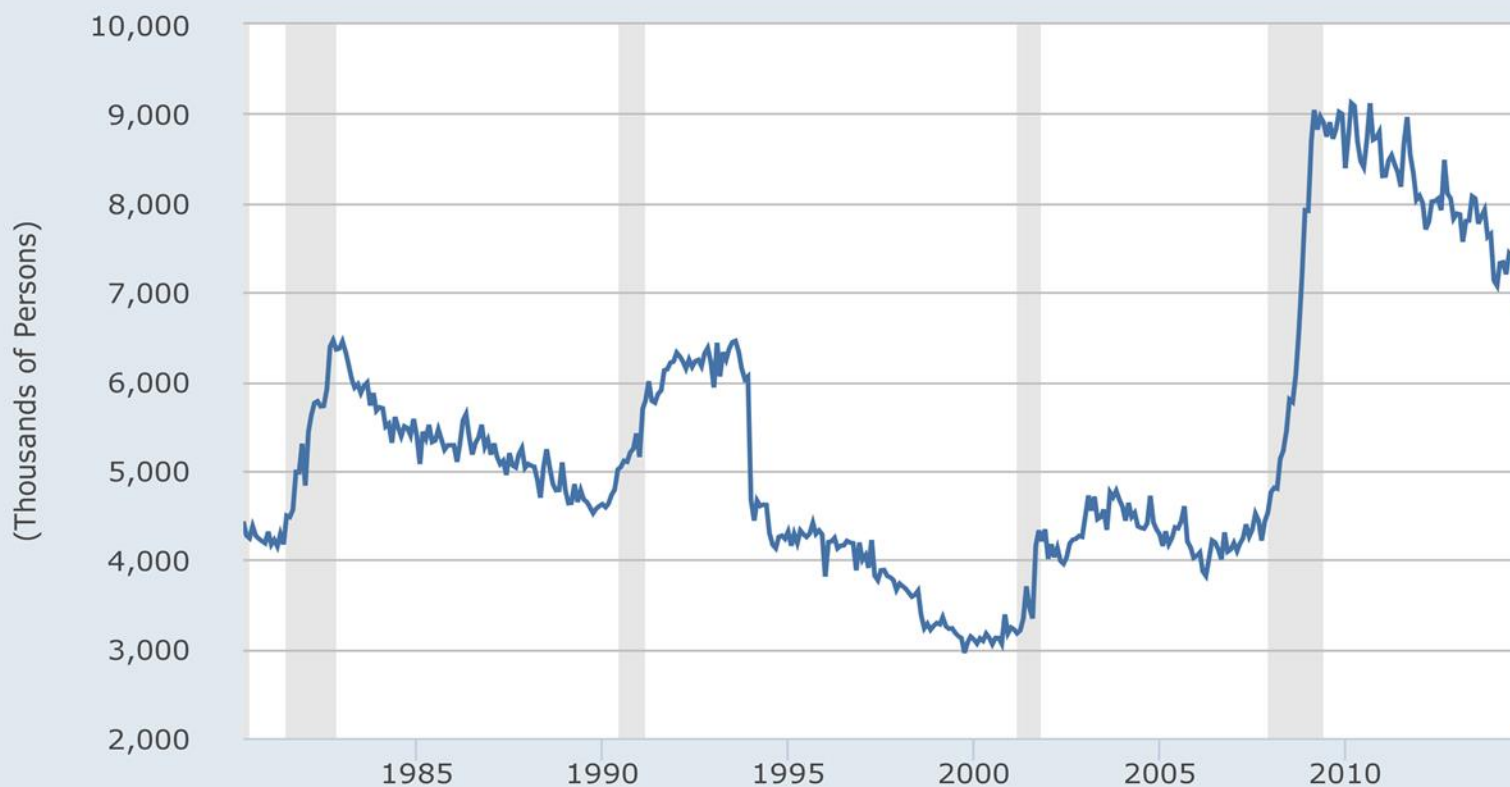




Part-Time Employment

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— Employment Level - Part-Time for Economic Reasons,
Nonagricultural Industries



Source: US. Bureau of Labor Statistics

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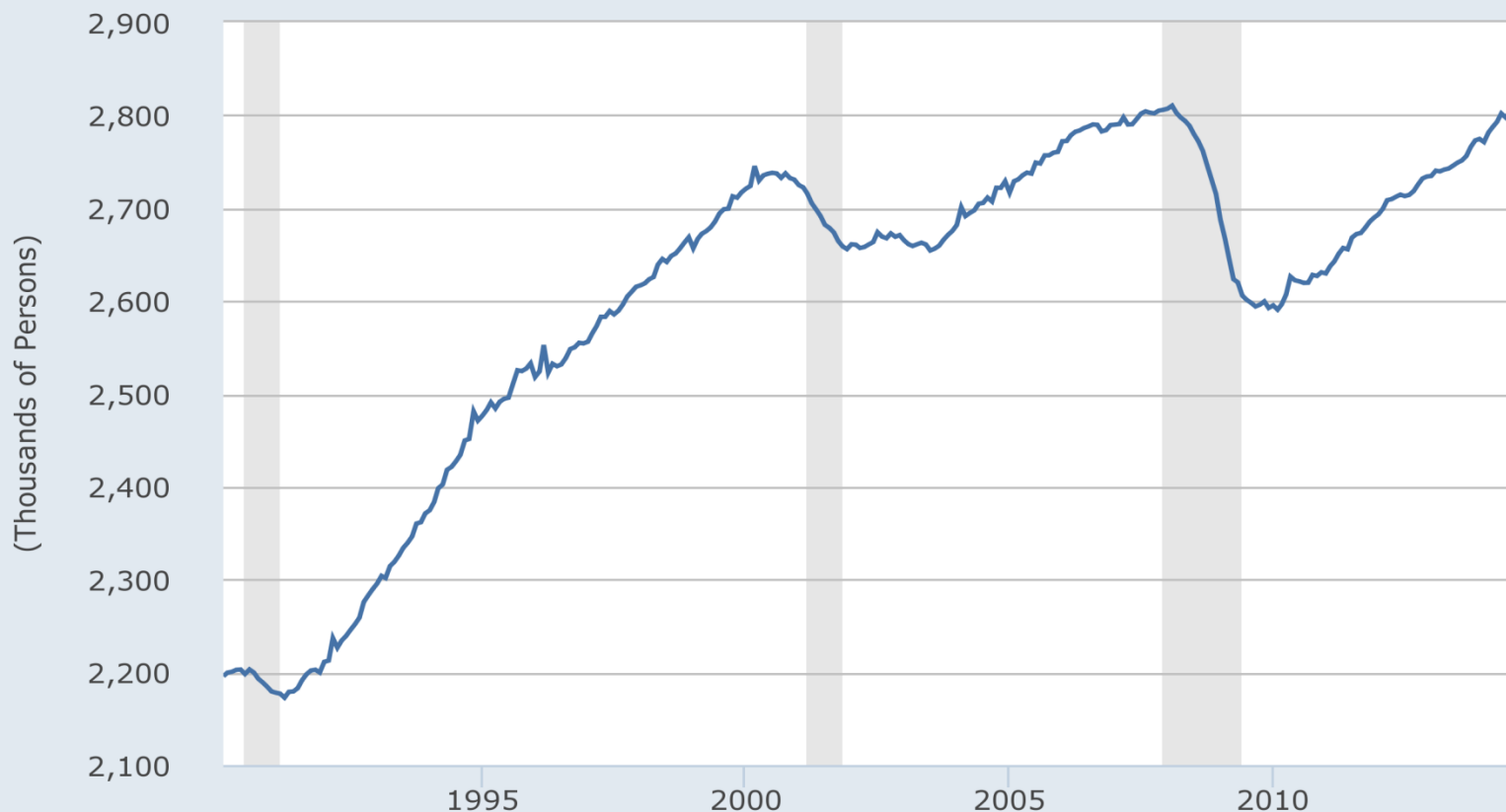




TN Employment (Nonfarm)

FRED

— All Employees: Total Nonfarm in Tennessee



Source: US. Bureau of Labor Statistics

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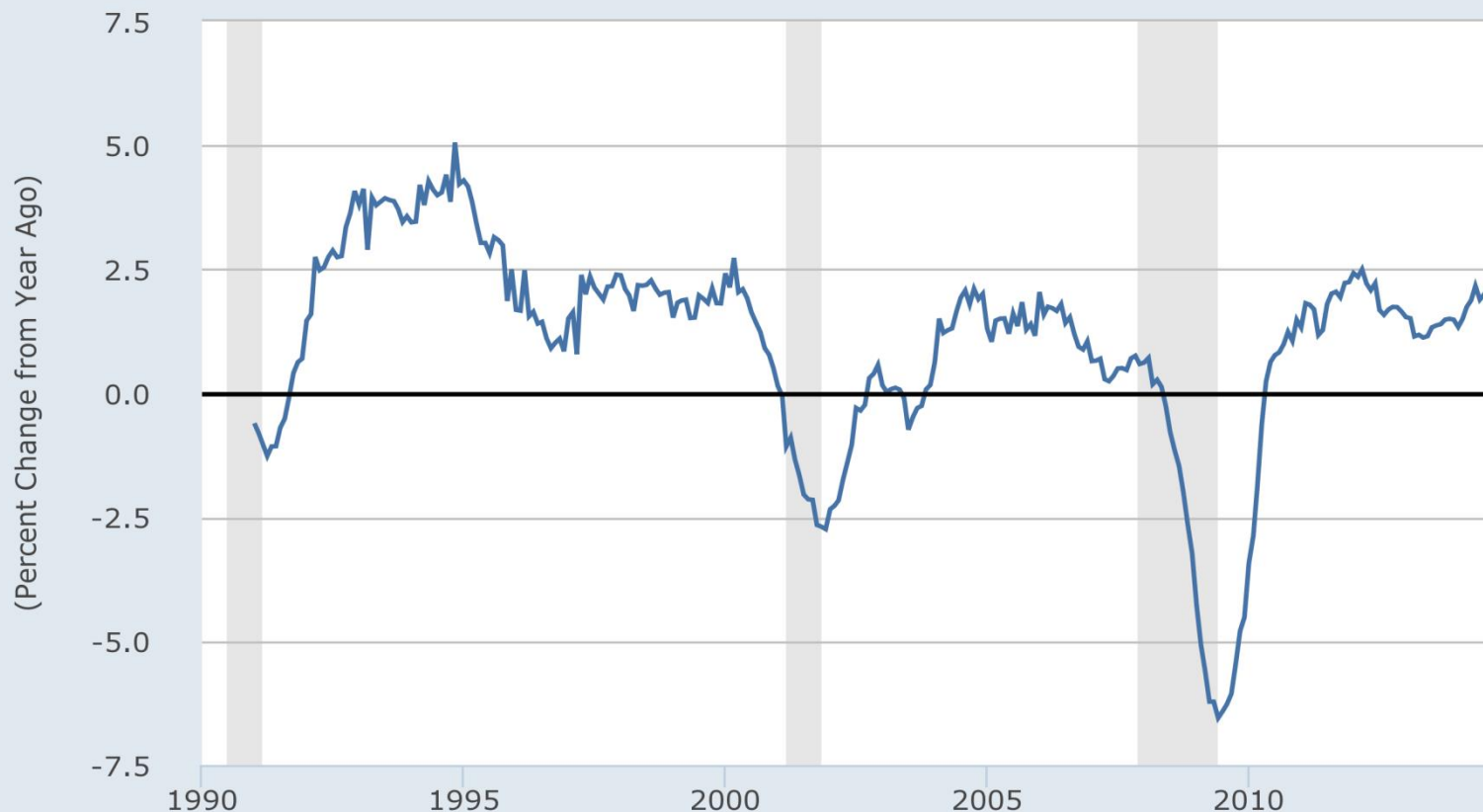




TN Employment Growth (Nonfarm)

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— All Employees: Total Nonfarm in Tennessee



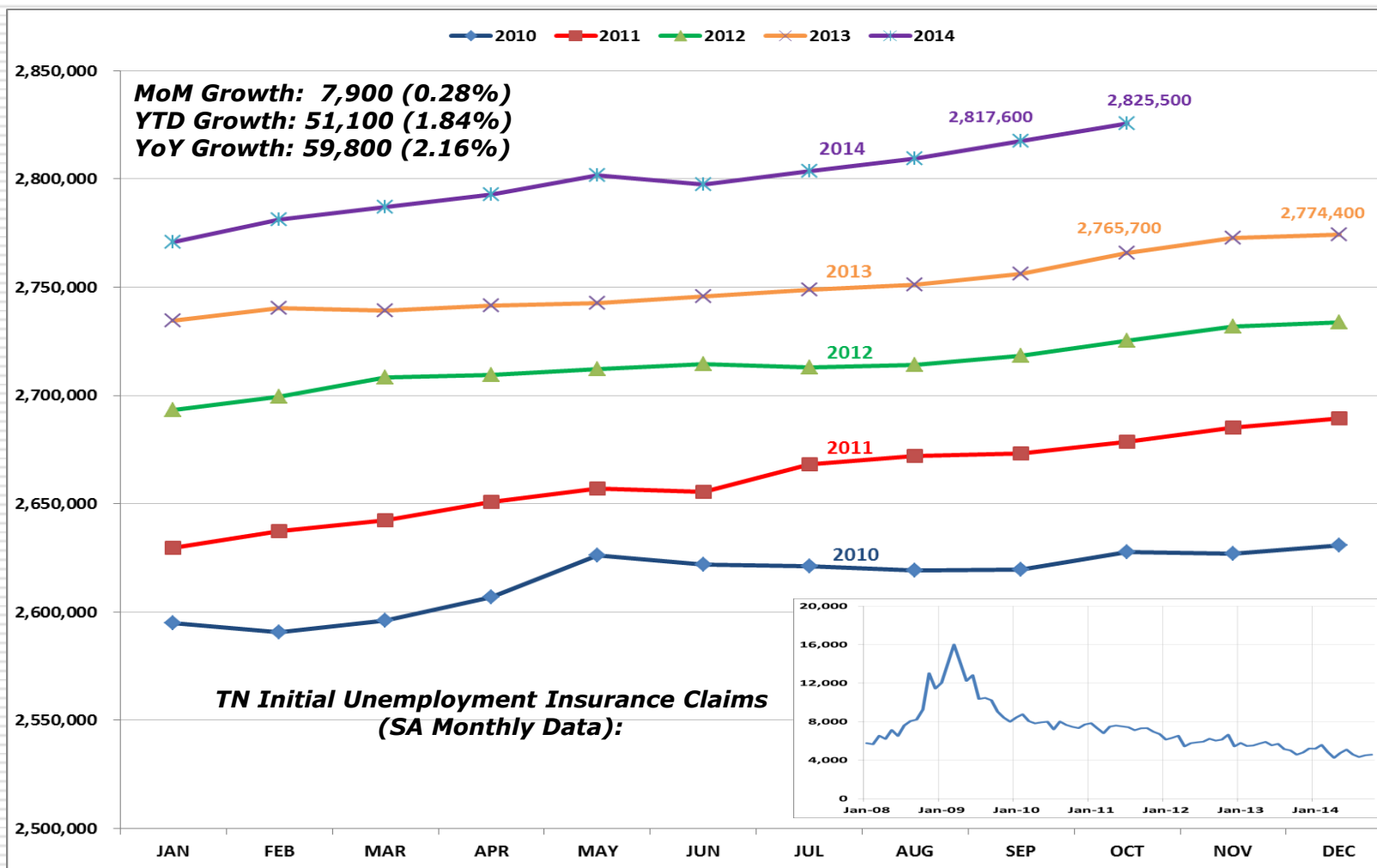
Source: US. Bureau of Labor Statistics

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TN Nonfarm Employment

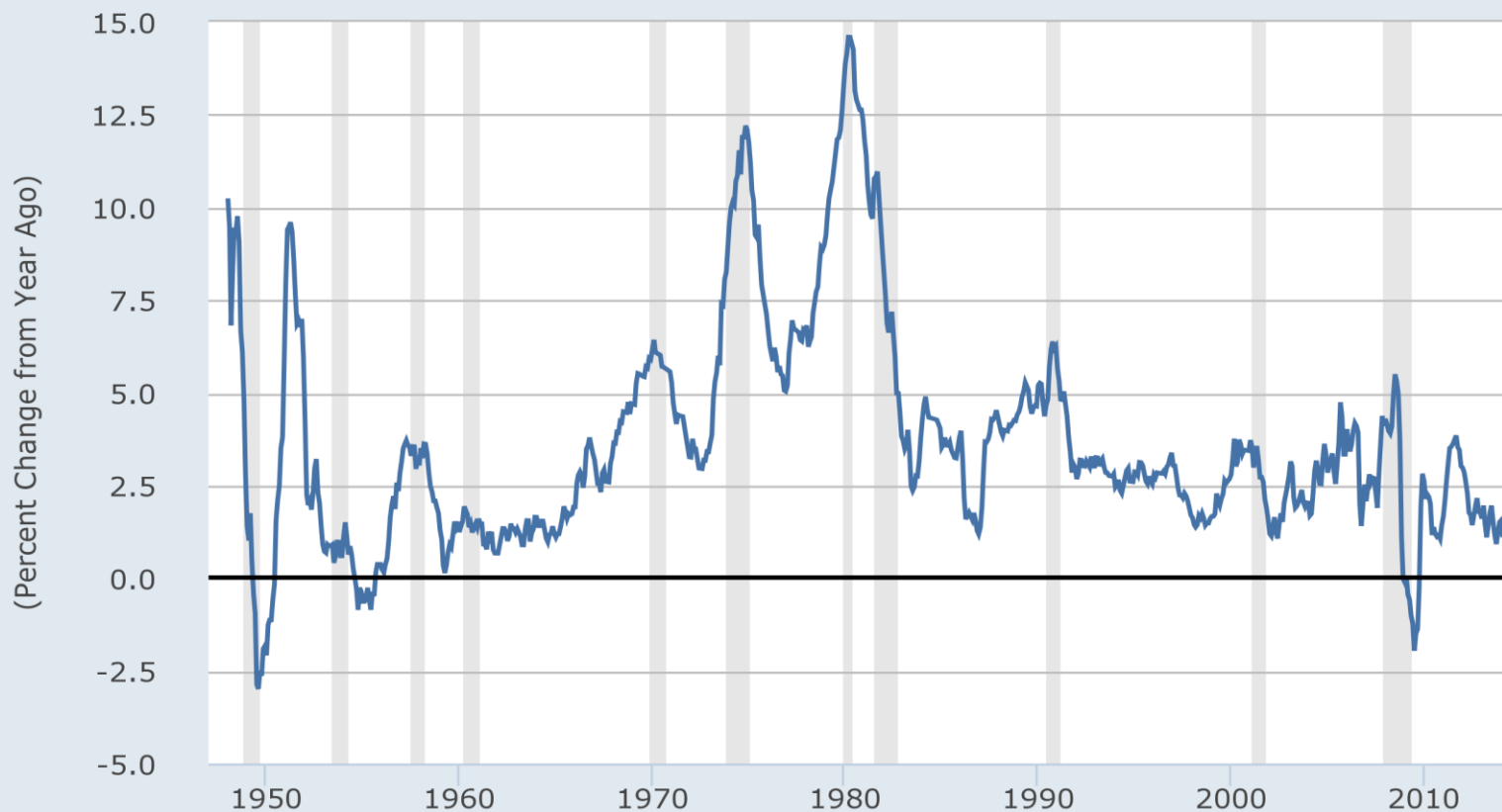




Consumer Price Index

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— Consumer Price Index for All Urban Consumers: All Items



Source: US. Bureau of Labor Statistics

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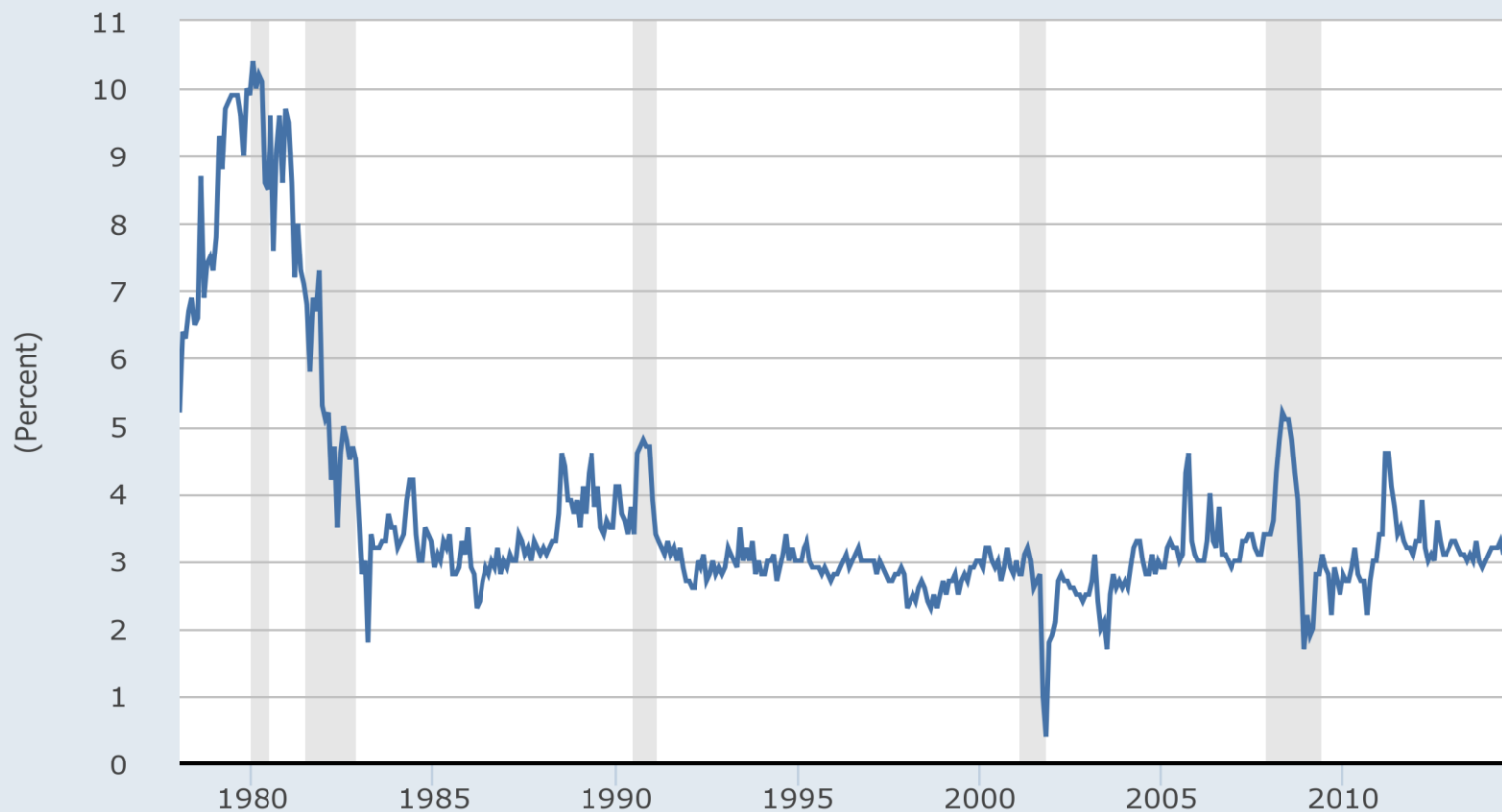




Inflation Expectation

FRED 

— University of Michigan Inflation Expectation©



Source: Thomson Reuters/University of Michigan

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Federal Funds Rate

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— Effective Federal Funds Rate



Source: Board of Governors of the Federal Reserve System (US)

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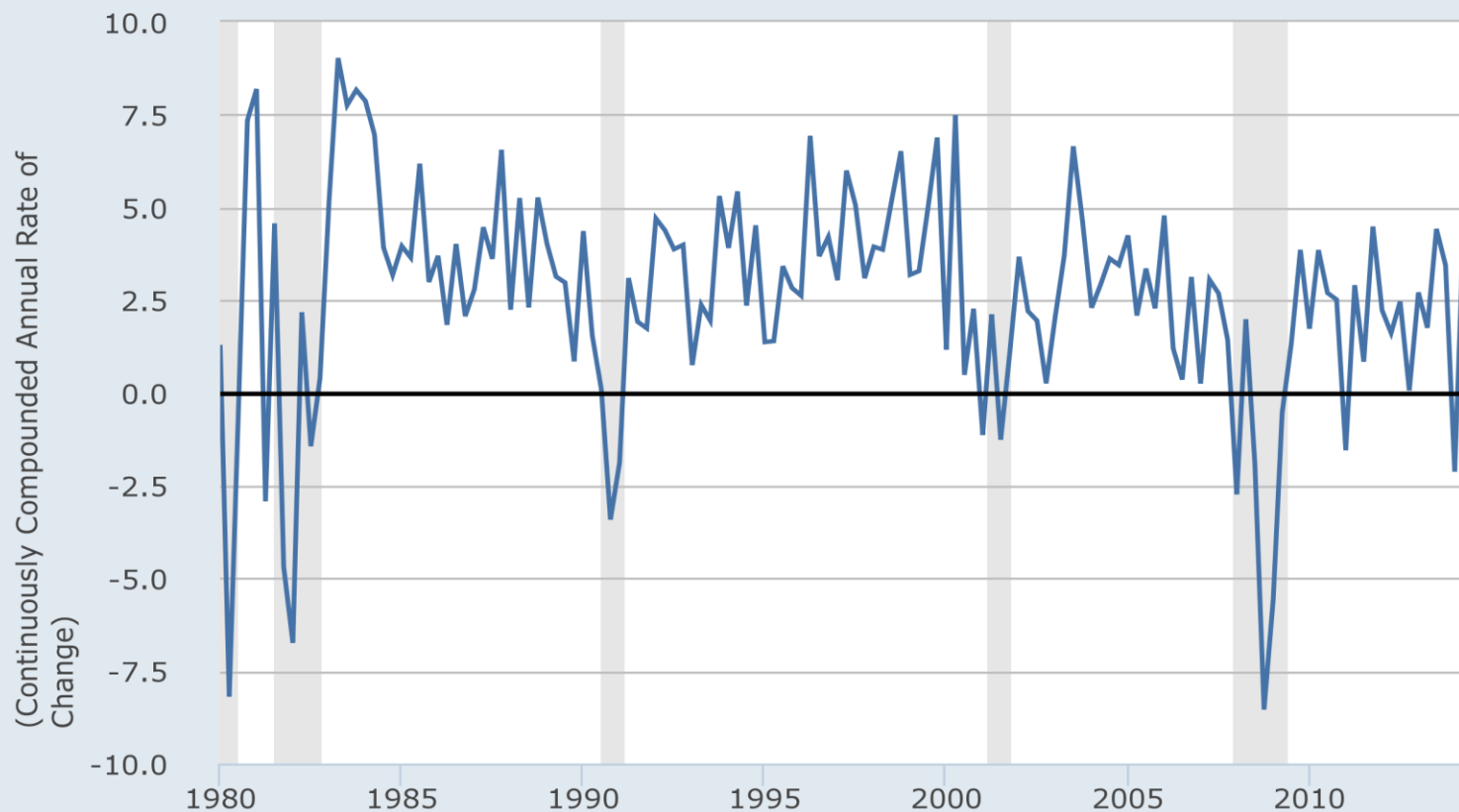




Growth in GDP

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— Real Gross Domestic Product



Source: US. Bureau of Economic Analysis

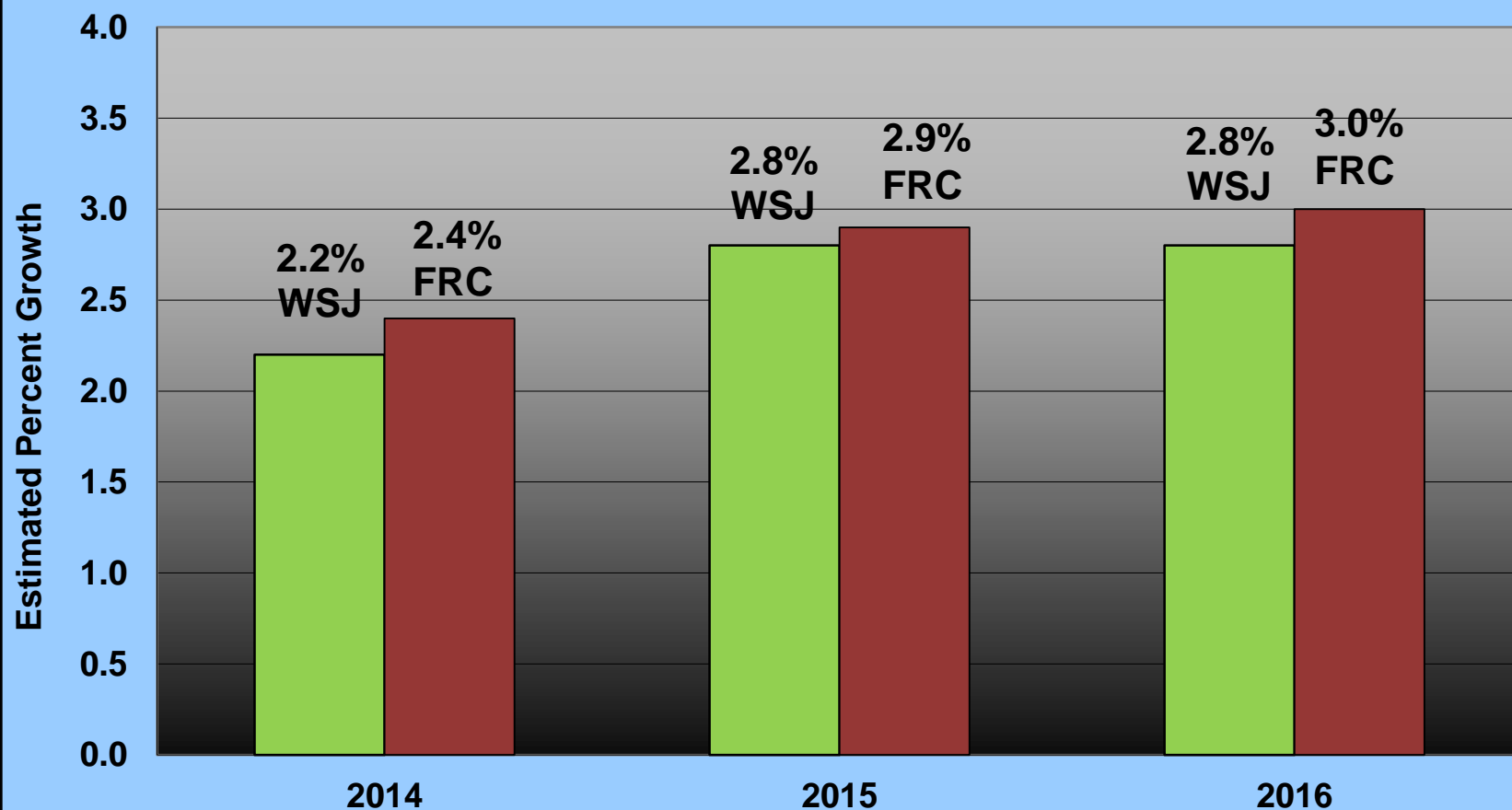
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Macroeconomic Outlook - Recap

*Average GDP Forecasts by Year: November 2014 Survey
(Based on WSJ Survey of 48 Leading Economists)*





Key Forecasting Issues

- ☐ Is recent growth in sales tax collections sustainable?
- ☐ Is recent uptick in fuel tax collections sustainable despite relative stagnation over the last few years?
- ☐ Do tobacco tax collections continue downward trend?
- ☐ What happens with Hall Income Tax collections after 26.1% growth in FY12-13; 2.53% growth in FY13-14?
- ☐ What happens with F&E collections following 22.3% growth in FY11-12; 9.1% growth in FY12-13; and then negative growth of -8.0% in FY13-14?
- ☐ By how much and when will Inheritance Tax collections decline pursuant to PC1057 (2012)?





TN Tax Revenue Outlook

- ❑ Translates to good tax revenue growth for TN in FY14-15 and FY15-16:
 - Relative to FY13-14 accrued collections
 - Total Revenue Growth of 5.05% in FY14-15
 - General Fund Growth of 5.86% in FY14-15
 - Total Revenue Growth of 3.36% in FY15-16
 - General Fund Growth of 3.67% in FY15-16





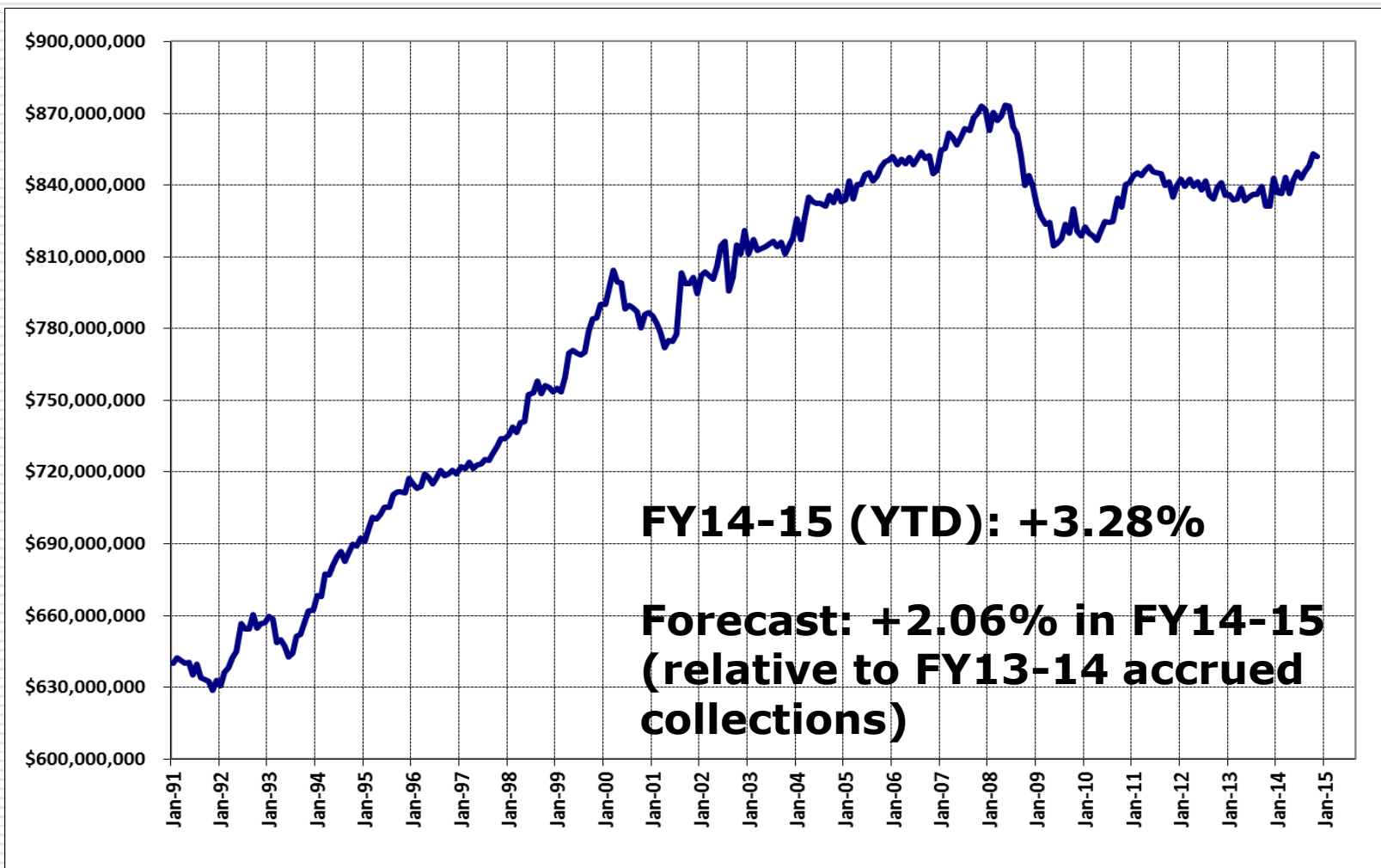
Base Analysis for Sales Tax

	FY12-13	Growth over FY11-12	FY13-14	Growth over FY12-13	FY14-15	Growth over FY13-14
August	1.13%	1.91%	3.75%	3.53%	6.73%	6.65%
September	2.84%		3.50%		5.32%	
October	0.93%		2.91%		7.27%	
November	2.80%		3.97%		7.28%	
December	5.01%	1.79%	2.53%	3.54%	?	5.17% FRC Forecast
January	-0.30%		4.95%		?	
February	2.42%		1.10%		?	
March	0.11%		5.51%		?	
April	-0.70%		4.04%		?	
May	3.97%		0.93%		?	
June	1.18%		5.54%		?	
July	3.42%		3.17%		?	
Year-over-Year (cash)		1.83%		3.53%		5.65%



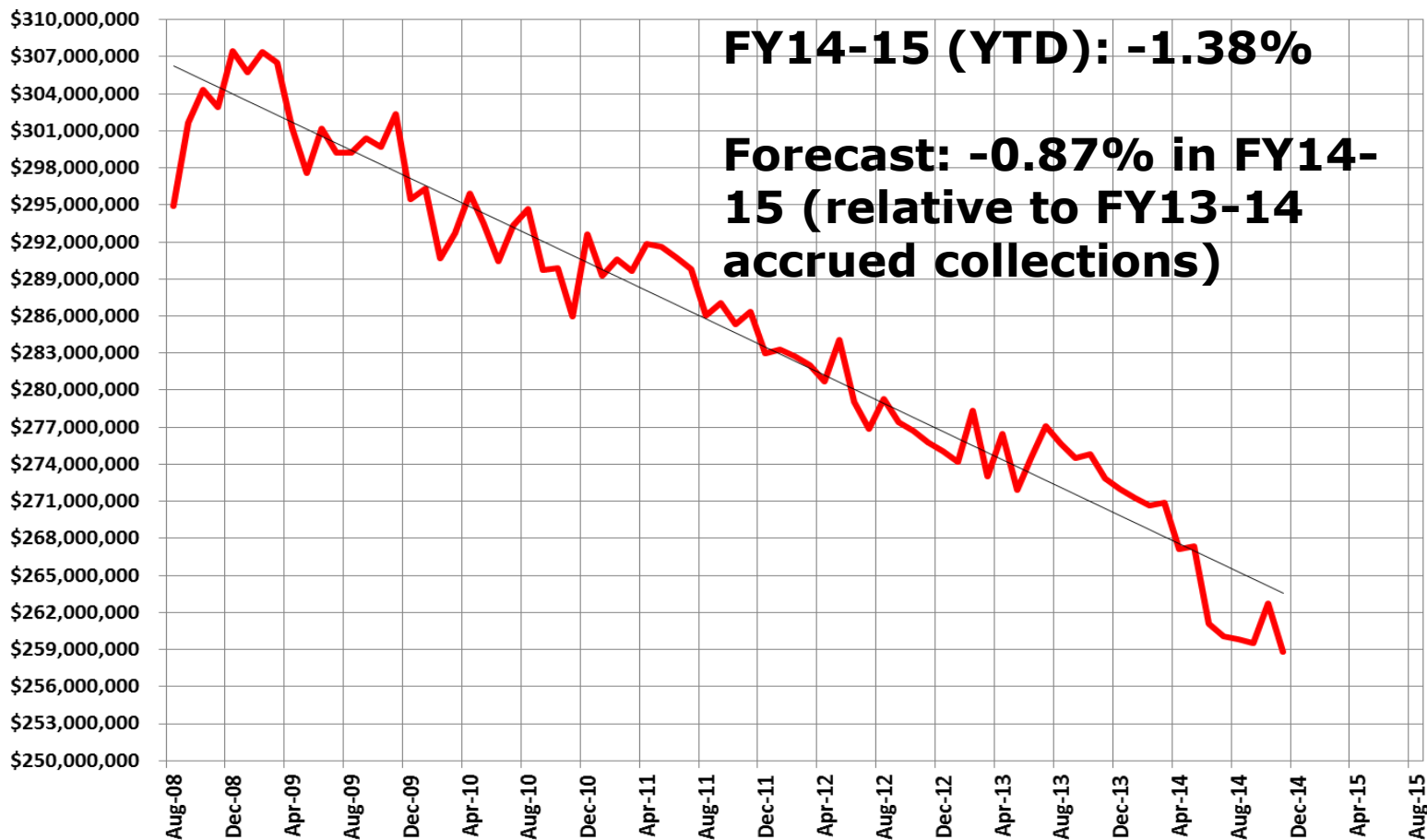


Fuel Taxes (12 month MS)



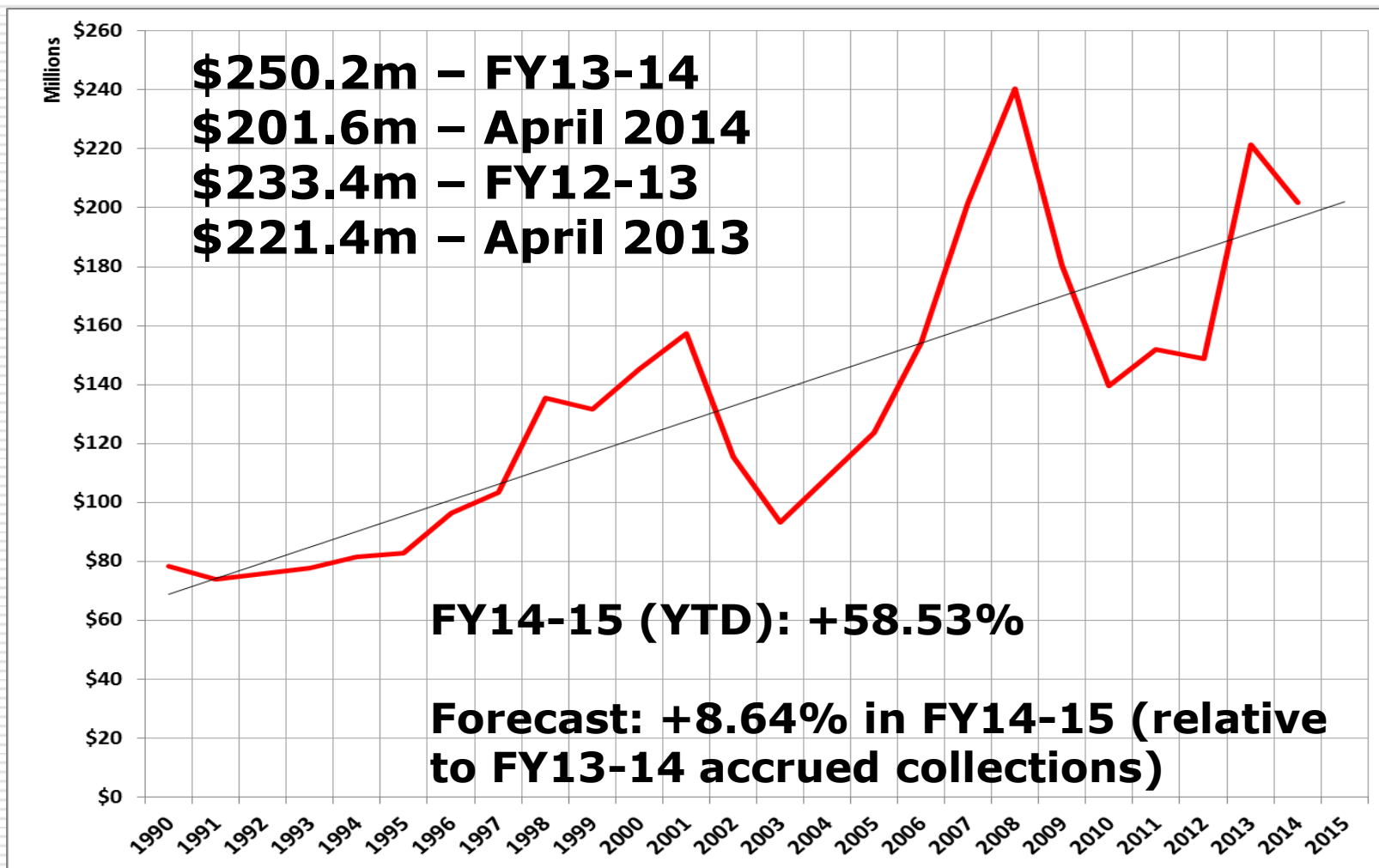


Tobacco Tax (12 month MS)



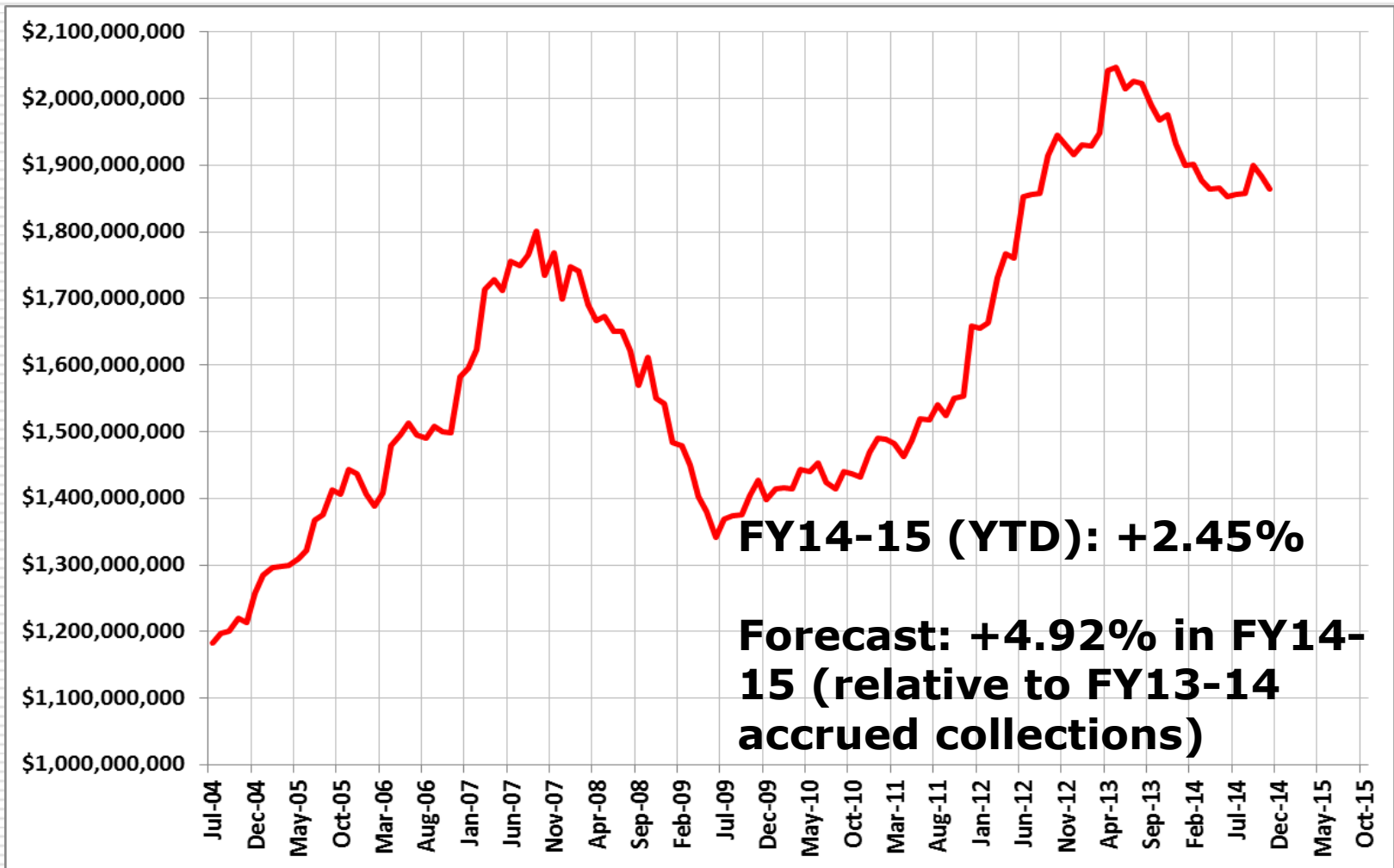


Hall Income Tax – April



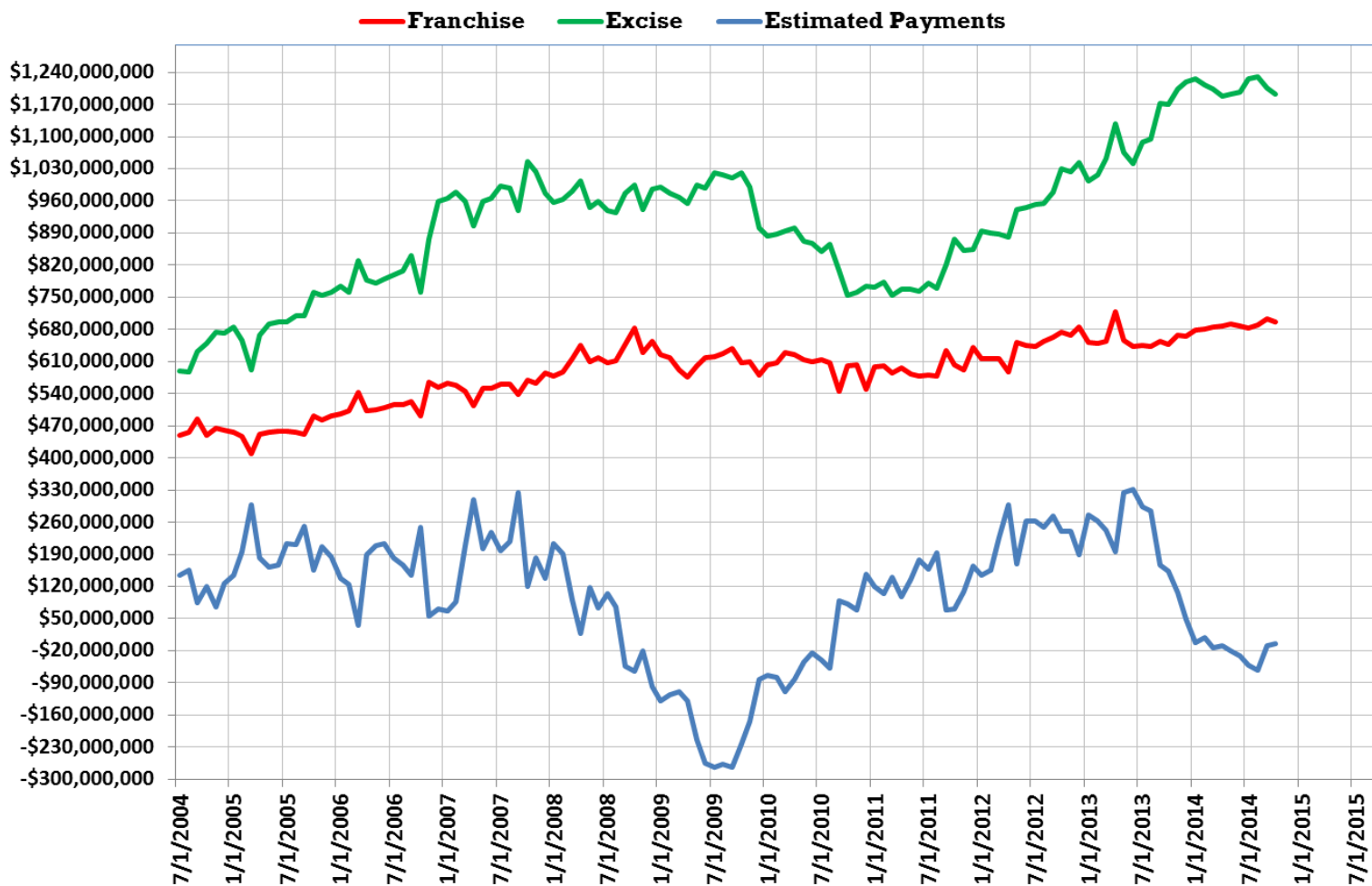


Franchise and Excise Taxes (12 month MS)





F&E by Category (12 month MS)





F&E (After a down year)

- Since FY68-69, there has only been 8 years in which F&E growth was negative.
- What happened the following year?

<i>Year with Negative Growth</i>	<i>Negative Growth Rate</i>	<i>The Following Year</i>	<i>Growth Rate</i>
FY80-81	-0.53%	FY81-82	5.40%
FY89-90	-4.64%	FY90-91	4.07%
FY91-92	-2.14%	FY92-93	13.64%
FY98-99	-2.23%	FY99-00	20.25%
FY01-02	-12.92%	FY02-03	12.04%
FY07-08	-5.64%	FY08-09	-17.07%
FY08-09	-17.07%	FY09-10	4.01%
AVG	-6.45%	AVG	6.05%
Historically: Each -1.0% led to:			<u>0.94%</u>
FY13-14	-8.42%	FY14-15 (YTD)	2.45%
Current Year: Each -1.0% leading to:			<u>0.29%</u>





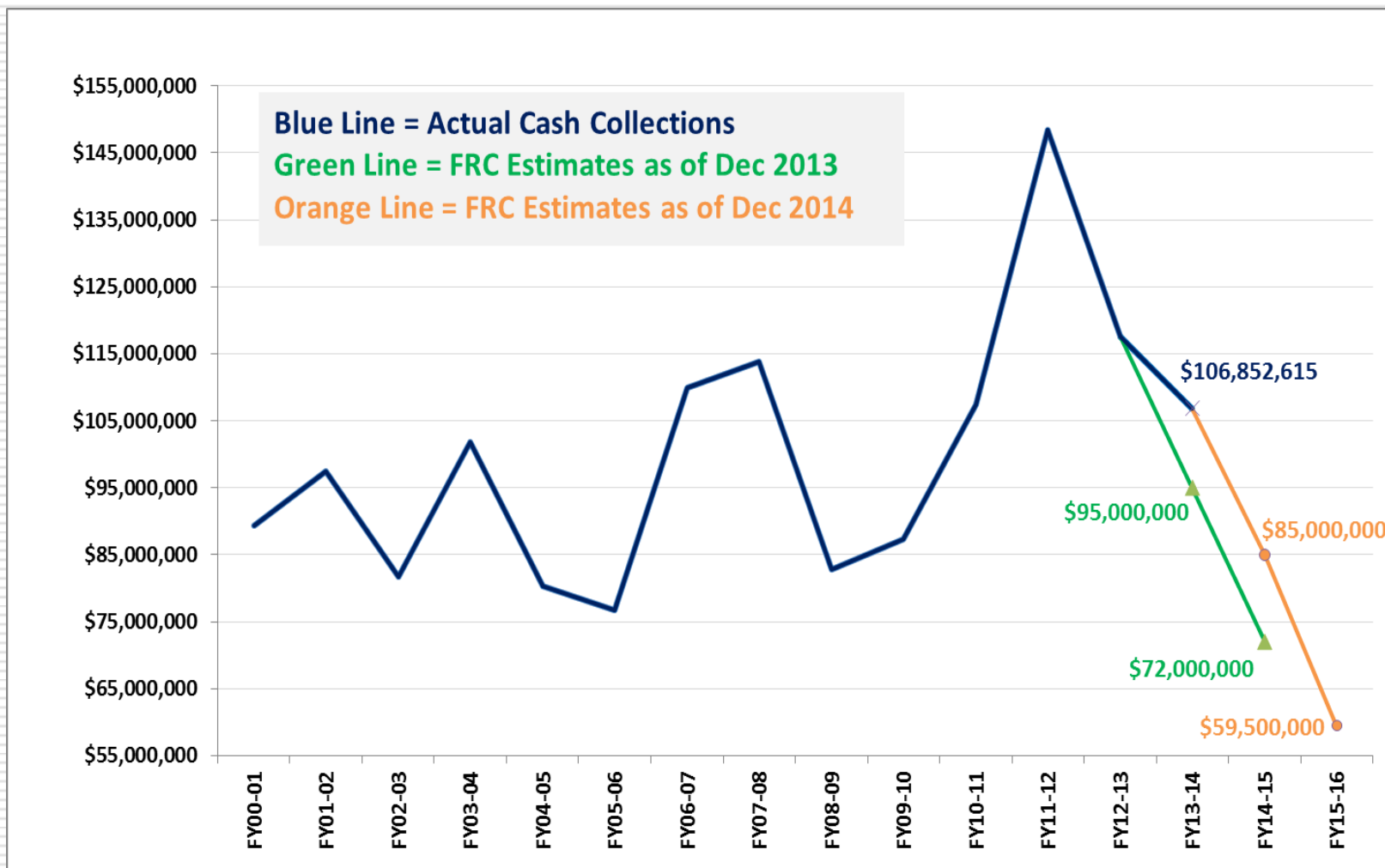
Base Analysis for F&E Taxes

	FY12-13	Growth over FY11-12	FY13-14	Growth over FY12-13	FY14-15	Growth over FY13-14
August	4.63%	20.37%	-10.69%	-11.38%	9.25%	2.45%
September*	22.31%		-10.37%		14.95%	
October	85.63%		-33.64%		-37.96%	
November	-34.84%		30.61%		-53.27%	
December*	-5.57%	6.41%	-17.89%	-7.61%	?	5.80% FRC Forecast
January*	9.42%		-18.87%		?	
February	-4.55%		0.45%		?	
March*	10.15%		-11.02%		?	
April**	24.92%		-2.74%		?	
May	11.58%		2.73%		?	
June**	-8.85%		-3.55%		?	
July	21.54%		2.93%		?	
Year-over-Year (cash)		9.13%	-8.42%		5.10%	





Inheritance Tax





Growth Forecasts: FY14-15 & FY15-16

Tax Source	FY14-15			FY15-16
	FY14-15 YTD Growth (Cash)	Growth Forecast for Remainder of FY14-15 (Cash)	Growth Forecast for FY14-15 (Accrual)*	Growth Forecast for FY15-16 (Accrual)
Sales Tax	6.65%	5.17%	5.47%	4.29%
Motor Fuels	3.28%	1.53%	2.06%	0.72%
Income	58.53%	7.38%	8.64%	3.85%
F&E	2.45%	5.80%	4.92%	3.33%
All Other	0.58%	3.73%	4.28%	0.24%
Total	5.14%	4.91%	5.05%	3.36%

***Growth rate forecasts for FY14-15 are relative to FY13-14 accrual collections**





Estimates for FY14-15 & FY15-16

REVENUE SOURCE	ACTUAL ACCRUAL COLLECTIONS FY13-14	FRC STAFF TAX REVENUE ESTIMATES FY14-15	PERCENT INCREASE OVER FY13-14	FRC STAFF TAX REVENUE ESTIMATES FY15-16	PERCENT INCREASE OVER FY14-15
SALES & USE TAX	\$7,286,164,500	\$7,685,000,000	5.5%	\$8,015,000,000	4.3%
GASOLINE TAX	\$617,136,400	\$628,000,000	1.8%	\$631,200,000	0.5%
MOTOR FUEL TAX	\$162,783,800	\$168,000,000	3.2%	\$170,000,000	1.2%
GASOLINE INSPECTION TAX	\$63,243,900	\$64,500,000	2.0%	\$65,500,000	1.6%
MOTOR VEHICLE REG. TAX	\$250,177,600	\$258,000,000	3.1%	\$262,000,000	1.6%
INCOME TAX	\$239,316,300	\$260,000,000	8.6%	\$270,000,000	3.8%
PRIVILEGE TAX - LESS EARMARKED*	\$262,072,500	\$297,000,000	13.3%	\$309,000,000	4.0%
GROSS RECEIPTS TAX: TVA	\$331,882,700	\$347,054,000	4.6%	\$353,300,000	1.8%
GROSS RECEIPTS TAX: OTHER	\$27,212,100	\$28,700,000	5.5%	\$29,600,000	3.1%
BEER TAX*	\$17,067,000	\$18,200,000	6.6%	\$18,600,000	2.2%
ALCOHOLIC BEVERAGE TAX	\$54,857,000	\$57,800,000	5.4%	\$59,000,000	2.1%
FRANCHISE & EXCISE TAX	\$1,858,638,300	\$1,950,000,000	4.9%	\$2,015,000,000	3.3%
INHERITANCE TAX	\$107,701,400	\$85,000,000	-21.1%	\$59,500,000	-30.0%
TOBACCO TAX	\$260,260,000	\$258,000,000	-0.9%	\$254,000,000	-1.6%
MOTOR VEHICLE TITLE FEES	\$11,416,500	\$11,800,000	3.4%	\$12,000,000	1.7%
MIXED DRINK TAX	\$77,147,800	\$85,000,000	10.2%	\$89,300,000	5.1%
BUSINESS TAX	\$114,808,200	\$133,000,000	15.8%	\$137,000,000	3.0%
SEVERANCE TAX	\$2,479,700	\$2,500,000	0.8%	\$2,600,000	4.0%
AMUSEMENT TAX	\$324,200	\$300,000	-7.5%	\$300,000	0.0%
UNAUTHORIZED SUBSTANCE TAX	\$21,000	\$0	N/A	\$0	N/A
TOTAL REVENUE	\$11,744,710,900	\$12,337,854,000	5.1%	\$12,752,900,000	3.4%

*Privilege Tax estimates are reduced by \$43.0 million for the earmarked portion of the tax.





FY14-15: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS	GENERAL FUND
	<u>FY14-15</u>	<u>FY14-15</u>
SALES & USE TAX	\$7,685,000,000	\$7,256,936,000
GASOLINE TAX	\$628,000,000	\$9,908,000
MOTOR FUEL TAX	\$168,000,000	\$3,185,000
GASOLINE INSPECTION TAX	\$64,500,000	\$18,834,000
MOTOR VEHICLE REGISTRATION TAX	\$258,000,000	\$45,231,000
INCOME TAX	\$260,000,000	\$168,542,000
PRIVILEGE TAX	\$297,000,000	\$294,987,000
GROSS RECEIPTS TAX: TVA	\$347,054,000	\$195,107,000
GROSS RECEIPTS TAX: OTHER	\$28,700,000	\$23,807,000
BEER TAX	\$18,200,000	\$12,199,000
ALCOHOLIC BEVERAGE TAX	\$57,800,000	\$47,831,000
FRANCHISE & EXCISE TAX	\$1,950,000,000	\$1,709,600,000
INHERITANCE TAX	\$85,000,000	\$85,000,000
TOBACCO TAX	\$258,000,000	\$258,000,000
MOTOR VEHICLE TITLE FEES	\$11,800,000	\$9,100,000
MIXED DRINK TAX	\$85,000,000	\$42,666,000
BUSINESS TAX	\$133,000,000	\$133,000,000
SEVERANCE TAX	\$2,500,000	\$1,111,000
AMUSEMENT TAX	\$300,000	\$300,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$12,337,854,000	\$10,315,344,000





FRC Estimates for FY14-15 Relative to Current Budgeted Estimates

CURRENT FRC STAFF ESTIMATE FOR FY14-15	
SALES TAX	\$7,685,000,000
FRANCHISE & EXCISE TAXES	\$1,950,000,000
ALL FUNDS	\$12,337,854,000
GENERAL FUND	\$10,315,344,000
CURRENT BUDGETED ESTIMATE FOR FY14-15	
SALES TAX	\$7,515,100,000
FRANCHISE & EXCISE TAXES	\$1,904,300,000
ALL FUNDS	\$12,117,600,000
GENERAL FUND	\$10,126,200,000
EST. OVERAGE/(SHORTAGE) COMPARED TO CURRENT BUDGETED ESTIMATE FOR FY13-14:	
SALES TAX	\$169,900,000
FRANCHISE & EXCISE TAXES	\$45,700,000
ALL FUNDS	\$220,254,000
GENERAL FUND	\$189,144,000
ACT. GENERAL FUND FOR FY13-14:	\$9,744,409,700
EST. GENERAL FUND INCREASE OVER FY13-14:	\$570,934,300





FY15-16: All Funds and General Fund

REVENUE SOURCE	ALL FUNDS	GENERAL FUND
	<u>FY15-16</u>	<u>FY15-16</u>
SALES & USE TAX	\$8,015,000,000	\$7,568,555,000
GASOLINE TAX	\$631,200,000	\$9,959,000
MOTOR FUEL TAX	\$170,000,000	\$3,223,000
GASOLINE INSPECTION TAX	\$65,500,000	\$19,126,000
MOTOR VEHICLE REGISTRATION TAX	\$262,000,000	\$45,932,000
INCOME TAX	\$270,000,000	\$175,025,000
PRIVILEGE TAX	\$309,000,000	\$306,906,000
GROSS RECEIPTS TAX: TVA	\$353,300,000	\$198,618,000
GROSS RECEIPTS TAX: OTHER	\$29,600,000	\$24,553,000
BEER TAX	\$18,600,000	\$12,467,000
ALCOHOLIC BEVERAGE TAX	\$59,000,000	\$48,824,000
FRANCHISE & EXCISE TAX	\$2,015,000,000	\$1,774,600,000
INHERITANCE TAX	\$59,500,000	\$59,500,000
TOBACCO TAX	\$254,000,000	\$254,000,000
MOTOR VEHICLE TITLE FEES	\$12,000,000	\$9,300,000
MIXED DRINK TAX	\$89,300,000	\$44,825,000
BUSINESS TAX	\$137,000,000	\$137,000,000
SEVERANCE TAX	\$2,600,000	\$1,156,000
AMUSEMENT TAX	\$300,000	\$300,000
UNAUTHORIZED SUBSTANCE	\$0	\$0
TOTAL REVENUE	\$12,752,900,000	\$10,693,869,000

